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Subject: Property, Plant, and Equipment and Operating Materials and Supplies

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Chapter 6. Capital Leases

6.1 Overview

6.1.1 This chapter prescribes accounting policies and procedures for PP&E leased by NASA and subject to capitalization.

6.2 Roles and Responsibilities

Refer to Section 1.6 of this NPR document.

6.3 Identification

6.3.1 Proper and timely identification of capital leases of PP&E by the responsible officials are essential for the control, accounting, and reporting of capitalized assets. The Center CFO office shall review and document its assessment of the lease agreement and submit to the Agency OCFO, Property Branch for concurrence in determining if it is a capital lease and if the asset meets the Agency criteria for capitalization. (See NPR 4200.1, NASA Equipment Management Procedural Requirements, Section 3.4.4.4).

6.3.2 Unique WBS elements are not used for acquisition by capital leasing. The lease agreement is the supporting document. Due to the nature of capital leases, the AFUQ, NASA Form 1739 does not apply.

6.4 Capitalization Criteria

6.4.1 Capital Leases. PP&E under a lease where the terms of the agreement are essentially equivalent to an installment purchase of PP&E and the capitalization criteria outlined below are met shall be capitalized. In accordance with OMB Circular No. A-11, Preparing and Submitting Budget Estimates, Section 33 and Appendix B, and the Budgetary Enforcement Act of 1990, for all lease-purchases and leases of capital assets, there must be sufficient budgetary resources up front to cover the present value of the lease payments discounted using Treasury interest rates.

6.4.2 Capitalization Criteria.

6.4.2.1 Leased PP&E is subject to capitalization if its fair value is \$100,000 or more and the terms of the agreement are equivalent to an installment purchase by meeting any one of the following criteria.

- a. The lease transfers ownership to NASA at the end of the term.
- b. The lease contains an option to purchase at a bargain price.
- c. The non-cancelable length of the lease is equal to or greater than 75 percent of the estimated economic life of the PP&E.
- d. The present value of the rental or other minimum lease payments, excluding that portion of the payments that represents executory costs, such as insurance, maintenance, and taxes to be paid by NASA, equals or exceeds 90 percent of the fair value of the PP&E.
- e. Note: The last two criteria are not applicable if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased PP&E. The rental of space from General Services Administration (GSA) does not qualify as leased PP&E subject to capitalization.

6.5 Valuation

6.5.1 The present value of the minimum lease payments shall be computed using the Treasury Average Interest Rate for Marketable Interest-Bearing Debt, unless it meets the following two conditions:

- a. It is practicable for NASA to obtain the interest rate implicit in the lease computed by the lessor.
- b. The implicit rate computed by the lessor is less than the Treasury Average Interest Rate for Marketable Interest-Bearing Debt.

6.6 Recognition

6.6.1 Each item of leased property that meets the capitalization criteria shall be treated as a single event, and all costs incurred in relation to that event, regardless of when they are paid, must be recorded in the general ledger as an asset. The total cost of each leased property item will be considered a single event, regardless of whether or not the work was performed on multiple contracts.

6.6.2 Leased PP&E that meets the above criteria shall be recorded as an asset.

6.6.3 The amount recorded shall be equal to the amount recognized as a liability for the

capital lease at its inception (the net present value of the lease payments calculated as discussed above, unless the net present value exceeds the fair market value of the PP&E, in which case the liability shall be the fair value).

6.6.4 Interest expenses shall be recognized as a portion of the lease payments and will be calculated based on the interest rate used to compute the present value of the minimum lease payments.

6.7 Amortization

6.7.1 The recorded cost (fair value) of the leased asset shall be amortized over the life of the lease.

6.8 Disposal

6.8.1 If an asset under capital lease is disposed prior to the completion of the capital lease term, it shall be recorded by removing the asset and the corresponding capital lease liability account and accumulated depreciation on capitalization.

6.8.2 Any loss on the disposition of the asset under capital lease shall be recognized and recorded at the time of the disposal of the asset under capital lease.

6.9 Reporting

6.9.1 Reporting Requirements. Leased PP&E subject to capitalization are reported in the Capital Leases Report, submitted to the Agency OCFO. All other PP&E leased for periods in excess of one year, including capitalized leases less than \$100,000, and those agreements where NASA is the lessor shall be reported in the Operating Leases Report.

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